

EU Action Plan on Financing Sustainable Growth

1st Workshop on Green Finance in the Energy Community
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Ema Potocnik
Tibor Schaffhauser

BACKGROUND ON GREEN FINANCE

- There is **no internationally agreed description of what is Green / Sustainable Finance**;
 - *First ethical financing dates back to 18th century, but mainstreaming started in 1960's/70's and green aspects started to emerge in 1980's/90's.*
- However landmark international agreements on the **UN 2030 agenda and sustainable development goals** and the **Paris Agreement** provide a **framework**;
 - *Article 2(1)(c) includes the commitment to align financial flows with a pathway towards low-carbon and climate-resilient development.*
- In response the EU developed its **Action Plan on Financing Sustainable Growth** in 2018, the **European Green Deal Investment Plan** in 2020.
 - *Reaching the previous EU climate and energy targets would require ~ €260 billion a year up to 2030.*



EU ACTION PLAN ON FINANCING SUSTAINABLE GROWTH

- The European Commission established a **High-level expert group on sustainable finance (HLEG)** in December 2016.
- The group was **mandated to provide advice** to the Commission on how to:
 - **steer the flow** of public and private **capital towards sustainable investments**,
 - **identify the steps** that financial institutions and supervisors should take to **protect the stability** of the financial system **from risks related to the environment**,
 - **deploy these policies** on a pan-European scale.
- **The recommendations** of the HLEG **form the basis of the action plan** on sustainable finance adopted by the Commission in March 2018. The action plan set out a **comprehensive strategy to further connect finance with sustainability**.



REORIENTING CAPITAL FLOWS TOWARDS A MORE SUSTAINABLE ECONOMY - I.

A Reorienting capital flows towards a more sustainable economy

1 Establishing a clear and detailed EU taxonomy, a classification system for sustainable activities.

2 Creating an EU Green Bond Standard and labels for green financial products

3 Fostering investment in sustainable projects

- **The EU Green Taxonomy** is a common language and a clear definition of what is sustainable and provides a common classification system for sustainable economic activities, establishing a list of environmentally sustainable economic activities.

- The Commission is
 - exploring the development of a **voluntary EU Green Bond Standard**;
 - working on an **EU Ecolabel for retail investment products**.

- The aim is to **connect sustainable finance frameworks and tools** with relevant EU funds;
- The **InvestEU programme** aims to support four policy areas through funding, technical support and assistance, and by bringing together stakeholders.

REORIENTING CAPITAL FLOWS TOWARDS A MORE SUSTAINABLE ECONOMY - II.

A Reorienting capital flows towards a more sustainable economy

4
Incorporating sustainability in financial advice

- Rules on how investment advisers and insurance distributors should **take sustainability factors into** account when providing **advice** to their clients.
- Delegated acts on the **integration of the sustainability risks** into organisational requirements, risk management procedures and product governance.

5
Developing sustainability benchmarks

- Updated Benchmark Regulation and delegated acts to create a **new category of benchmarks comprising low-carbon and positive carbon impact** benchmarks.
- To provide investors with **better information on the carbon footprint** of their investments.

MAINSTREAMING SUSTAINABILITY INTO RISK MANAGEMENT

B Mainstreaming sustainability into risk management

6 Better integrating sustainability in ratings and market research

7 Clarifying asset managers' and institutional investors' duties regarding sustainability

8 Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies

- To **strengthen disclosure of ESG** and **how they are represented**;
- Purpose of these requirements are to **ensure a sufficient level of transparency** around the credit rating actions.

- **Discusses disclosure obligations of different financial market participants** like insurance undertakings, investment firms, pension providers, fund managers and credit institutions which provide portfolio management.

- European Banking Authority now has a mandate to:
 - identify the principles and methodologies for the **inclusion of ESG risks in review and evaluation**;
 - explore prudential soundness of **introducing a more risk sensitive treatment of “green assets”**.

FOSTERING TRANSPARENCY AND LONG-TERMISM

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Fostering transparency and long-termism

9

Strengthening sustainability disclosure and accounting rule-making

10

Fostering sustainable corporate governance and attenuating short-termism in capital markets

■ Guidelines on non-financial reporting:

- Non-Financial reporting Directive (NFRD) for large public interest entities of 2019;
- Corporate Sustainability Reporting Directive (CSRD) for all large companies in 2021.

■ Aims to **undue short-term pressure from the financial sector** on corporations;

■ ESMA, EBA and EIOPA published findings and recommendations on **strengthening disclosure of ESG factors** to facilitate institutional investor engagement




THANK YOU FOR YOUR ATTENTION

Ema.Potocnik@energy-community.org

Tibor.Schaffhauser@energy.community.org

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